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SUBJECT: South Africa: Minerals and Energy Newsletter "THE ASSAY" -
Issue 14, December, 2008

This cable is not for Internet distribution.

11. (SBU) Introduction: The purpose of this newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply.

South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

HOT NEWS

SAG Passes Contentious Mine Safety Law

12. (SBU) South Africa's parliament has passed a new mine safety law, which enforces stricter penalties and holds mine chief executives criminally liable for deaths in their mines. The Chamber of Mines (COM) has criticized the law as "too punitive" because it makes a provision for increasing fines from \$20,000 to \$100,000 and includes a criminal liability clause, whereby chief executives and managers can be prosecuted should they be found guilty of causing serious injury or deaths. The law is premised on the principle that the responsibility for health and safety lies with the employers (owners of mines). South Africa has the world's deepest mines and its underground safety record does not match those of its peers in Australia and North America. The National Union of Mineworkers (NUM) statistics show that mine deaths in South Africa, the world's largest precious metals producer, fell by 23% in 2008 (from 2007) to the lowest since records began in 1904. NUM said that the decline to 170 deaths was significant, but was still not a cause for celebration. The government has still to issue the official death toll.

13. (SBU) Inspectors started suspending operations at mines that recorded a fatal accident after the death toll rose to 221 in 2007, the first increase since 2002. A nationwide safety audit was ordered by President Mbeki in October 2007 after more than 3,000 workers were temporarily trapped underground at Harmony Gold's Elandsrand mine. Workers also started holding a day of mourning after mine deaths. Mine unions welcomed the new legislation, but argued for higher penalties. The new law, which must still be signed into legislation, makes a provision for mine accident investigations to be held within 10 days and a report to be completed within 30 days after the accident. Mine safety inspectors are also empowered to enter any mine at any time, question persons and examine documents, and shut down mines if there is non-compliance with safety instructions.

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ENERGY

A Coal Roadmap for South Africa

14. (SBU) South Africa has a coal-based energy economy where coal provides some 89% of the country's electricity and more than 70% of its total energy needs. Coal also provides some 22% of the country's liquid fuel consumption. Export coal was South Africa's third-largest mineral export in 2007, and contributed some \$3 billion to foreign exchange earnings. The country has the largest identified coal reserves on the African continent, estimated at about 28 billion tons with a life of some 60 years at current and

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projected production rates. Coal resources in the ground (in situ) have been estimated at well over 100 billion tons, but reserves are dynamic and depend on technology, revenue-cost margins, and socio-environmental issues. The problem facing both industry and the government is the accuracy and reliability of the estimates of quantity and quality of coal contained in some 19 distinct coal basins spread from north to south across the eastern half of the country. Numerous exercises have been conducted over the past 60 years, but none have proven to have long-term validity. The proposed roadmap is an initiative of the Fossil Fuel Foundation of SA and has received support from Anglo American, Eskom, Sasol, the Chamber of Mines and the Department of Minerals and Energy. Its purpose is to map the way forward for the production, use, and policy determination for South Africa's coal.

15. (SBU) The first Coal Roadmap meeting to solicit industry support and funding was held a year ago and a second report-back meeting was held in December, chaired by Anglo American's head of energy Roger Wicks. Wicks said that January 2008's energy crisis could have been avoided had the coal roadmap been started five years ago. The roadmap will research various components of the industry, local and international factors that will affect coal in the future, and will identify best options to follow for future development. It is intended to bring together large and smaller producers and users of coal, equipment suppliers, associations, and relevant government departments.

Independent Power Plant Negotiations

16. (SBU) The delayed Department of Minerals and Energy (DME)-spearheaded independent power producer (IPP) project is still steaming ahead, and a new commercial operation date has been set for mid-2011, according to DME Chief Director of Electricity Ompi Aphane. Negotiations with a consortium led by Suez Energy of France for the construction of two open cycle gas-turbine plants are proceeding and should be completed by the end of March 2009, with construction to start soon after. Aphane said the economic landscape had changed since the start of the project, but he believed that the peaking power plants still presented an investment opportunity for IPPs. The project would add 1,000 MW to South Africa's electricity

grid, which came under severe pressure early in 2008. However, with various project delays and industrial cutbacks, electricity demand is likely to be lower than originally projected for 2009 due to the current economic climate. The project entails a 750 MW power station near Durban and a 330 MW plant at the Coega industrial development site near Port Elizabeth. DME began negotiating with Suez Energy after AES of the U.S. walked away from an earlier agreement.

New Coal Terminal at Richards Bay Unlikely
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¶7. (SBU) A consortium is said to be planning a new 10 million-ton-per-year export terminal to be built adjacent to South Africa's privately owned Richards Bay Coal Terminal (RBCT) in Kwa-Zulu Natal. The new terminal would also be privately owned and is intended to provide access to junior miners who were not granted export allocations under the Phase 5 RBCT expansion. The expansion is expected to be completed in July and will raise export capacity from the current 76 million tons to 91 million tons per year. A row has been brewing since the middle of 2008 when it became apparent that Transnet Freight Rail (TFR) would not be able to deliver coal at anywhere near the expanded capacity and that smaller producers could lose their export allocations. RBCT is owned by BHP-Billiton, Anglo Coal, Xstrata, Exxaro, and Total Coal.

¶8. (SBU) Coal industry sources are skeptical about these reports and view the construction of a new terminal as unlikely. An authoritative source believes the move is an attempt to put pressure

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on the RBCT owners to allocate more export quotas to BEE junior coal miners. This has been a contentious issue for years and the SAG only approved the Phase 5 expansion when terminal owners agreed to a BEE quota, starting at one million tons per year and increasing annually to the current four million tons. Subscriptions for the Phase 5 expansion are heavily weighted in favor of BEE companies. (Comment. The issue of additional terminal capacity to 91 million tons is a moot one because neither the mines nor, in particular, TFR appear capable of supplying coal at a rate sufficient to meet even RBCT's present capacity of 76 million tons per year. There is also some doubt as to whether the country's dwindling coal reserves could support this quantity of exports, given that state power utility Eskom will need some 50-60 million extra tons of coal for its new and rehabilitated coal-fired stations. South Africa exported only 62 million tons of coal in 2008, down from 66 million tons in 2007. End Comment.)

MINING

Gold Fields - "If we can't mine safely, we won't mine"

¶9. (SBU) The South African mining sector has been severely criticized over recent years for its safety record. The country's mines are the deepest in the world, which brings with it issues of seismicity (induced earthquakes), rock (pressure) bursts, falling ground, heat, and technical challenges. Nevertheless, the industry is constantly compared to its peers in Australia and North America, where mining conditions are less onerous, and found wanting. The pressure to improve overall mine safety has been driven by government, labor unions, and society, but also by an enlightened mine management intent on educating workers and enforcing safety regulations. This concerted drive for mine safety is particularly noticeable in the gold mines, but also in platinum mines.

¶10. (SBU) The top three gold miners, AngloGold Ashanti, Gold Fields, and Harmony Gold, are under new leadership as are top platinum miners Anglo American, Anglo Platinum, Impala Platinum, and Lonmin, and some have made great strides in implementing safety procedures. AngloGold's CEO Mark Cutifani recorded a fatality-free quarter in

June for the first time. Gold Fields' CEO Nick Holland has achieved a 50% improvement in its fatality rate -- Holland coined the phrase: "If we can't mine safely, we won't mine". Anglo American's new CEO Cynthia Carroll has made mine safety a top priority, arguing that safety and profitability go hand-in-hand. The new CEOs are having a positive impact, giving credence to the concept that safety starts at the top. Mine fatalities have fallen 50% over the past decade and the sector has made giant strides from the 855 deaths recorded in 1986. The question is, can the gains made this year be sustained and improved upon?

Global Crisis Hits African Mines

¶11. (SBU) The global financial crisis and falling commodity prices have dealt a major blow to mining-based African economies. The commodity boom has turned to bust and some prices and company stocks have declined by as much as 80% since July -- from over \$2,000 to \$816 per ounce for platinum, from \$8,000 to about \$3,100 per ton for copper, and from \$55,000 to less than \$10,000 per ton for nickel. This has made it increasingly difficult to raise capital for new projects and mining companies are scaling back operations and expansions. The result has been retrenchments and the implementation of emergency measures (extended periods of leave) to prevent further loss of jobs. Zambia and the Democratic Republic of Congo are some of the hardest hit in the region, while Tanzania and Mali, which focus mainly on gold mining, have been less affected. There has also been a slowdown in mineral exports from the region,

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which is placing strain on government revenues and the ability of many African governments to meet poverty-alleviation targets.

¶12. (SBU) Africa holds an estimated 30% of the world's mineral resources including 40% of gold, 60% of cobalt, 90% of platinum, 72% of chromium, 80% of manganese, and approximately 65% of diamonds. Diamond prices have fallen by 30% since October causing mining giant De Beers to implement an extended leave period for workers. This is likely to affect the world's biggest diamond producer Botswana, where diamonds account for more than one third of GDP and 70-80% of export earnings. In South Africa, the financial crisis has added to the woes of the electricity crisis and sources say some 24,000 workers are facing redundancy. The reduction in growth in China has significantly affected demand for both base metals and the platinum group metals. The two positives are that gold has retained its value and coal continues to be in demand.

Task Team Tries to Save Mining Jobs

¶13. (SBU) An agreement by a mining industry task team set up to save jobs could help to save nearly 15,000 jobs that are at immediate risk in the sector, according to union representatives. The task team consists of representatives of the Department of Minerals and Energy (DME), trade unions, and the Chamber of Mines and has agreed to a non-binding six measures to minimize job cuts by reducing mining costs, alleviating funding problems, removing impediments to production such as power cuts, ensuring compliance with labor laws, dealing with retrenchments, and looking at alternatives to retrenchments and steps to mitigate the effects of retrenchments. Retrenchments could grow to as many as 24,000 as a second wave of restructuring notices have been issued.

¶14. (SBU) Solidarity union leader Dirk Hermann said the agreement would help to reduce retrenchments by 40-60% and its most positive aspect was the focus on alternatives to job cuts. The alternatives that were agreed to include internal company transfers and redeployment, temporary lay-offs, a shorter working week, reducing bonuses for all including chief executives, and setting up mine-specific task teams. The trade unions had demanded a moratorium on retrenchments on December 1. The Chamber of Mines rejected this demand and the industry task team was formed instead. DME Director General Sandile Nogxina said the SAG had so far given no consideration to what interventions might be possible if the

retrenchment situation worsened.

Zambian Mines Close Production

¶15. (SBU) The Zambian government (GRZ) has asked foreign mining firms to use profits made during the copper boom to keep working during the downturn. This follows an earlier announcement that Luanshya Copper Mine (LCM) had suspended operations. LCM suspended their \$354 million Mulyashi copper project, which had been due to start producing 60,000 tons of copper in 2010. LCM then shut its Chambishi Metals unit, the country's largest cobalt producer, followed by the Baluba copper mine. LCM cited operational difficulties arising from the global credit crunch as reasons for the decision. Bank of Zambia Governor Caleb Fundanga expressed optimism that copper prices would soon rebound but said the developments at LCM were a threat to the country's copper industry and economy. He said that although copper demand and prices were on a downward trend it was too early for companies to leave in a rush.

Katanga Halts Kolwezi Cobalt Production

¶16. (SBU) Bermuda-based Katanga Mining has temporarily suspended mining operations at the Tilwezembe open pit and processing at the

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Kolwezi concentrator in the Democratic Republic of Congo (DRC) due to the depressed cobalt price. The company said it would sell down its cobalt concentrate inventory during the last quarter of 2008, and focus on its operations at the Kamoto underground mine, the T-17 open pit, and the Kamoto concentrator. Copper concentrate is to be accumulated at its Luilu metallurgical plant for processing at a later date.

Glencore to Take Over Katanga Mining

¶17. (SBU) The Swiss-based metal mining and commodities trading company Glencore looks set to take control of Katanga Mining, which owns one of the potentially largest copper/cobalt operations in the Democratic Republic of Congo (DRC). Based on the eventual structuring of an emergency funding package for Katanga of about \$515 million, Glencore could end up owning between 22.1% if other investors come to the table and 83.7% if it provides the funds alone. Glencore already holds an 8.5% stake in Katanga, earned by providing financial assistance to Nikanor when the company experienced capital overruns in 2007. In a Christmas Eve statement Katanga announced that it was in serious financial difficulty and that in the absence of immediate financing alternatives, it would be unable to continue to operate as a going concern.

¶18. (SBU) Katanga holds a 75% stake in two joint ventures with the state-owned mining company Gecamines. Katanga owned the Kamoto Copper Company (KCC) and acquired the DRC Copper and Cobalt Project (DCP) when it took over Nikanor in a \$3.3 billion deal in early 2008. The merged operation was supposed to create the DRC's largest copper/cobalt operation producing 400,000 tons per year of refined copper and 40,000 tons per year of cobalt by 2011. Katanga has since revised its production plan to 150,000 tons of copper by 2012.

CAMEC Halts DRC Cobalt Operations

¶19. (SBU) Emerging diversified miner Camec has announced a temporarily halt to its copper and cobalt mining operations in the Democratic Republic of the Congo (DRC). The decision is in response to the sudden and steep decline in the demand for cobalt and copper, particularly from China. The Company intends to monitor the

situation on a weekly basis and will recommence mining operations when commodity demand improves. This decision affects the Mukondo / Kakanda / Luita facilities in the DRC. During this next period sales will be supplied from stock. The company also announced the reduction of ongoing exploration across the group.

Zimplats' Platinum Expansion in the Balance

¶20. (SBU) Impala Platinum's Zimplats' Ngezi development project in Zimbabwe has set out to raise funds for the completion the project that would raise production to 160,000 ounces of platinum. Qthat would raise production to 160,000 ounces of platinum. Spokesperson Bob Tait emphasized that it was only the expansion that was under threat and that Zimplats' current production of 95,000 ounces of platinum per year would continue uninterrupted. He said that times were tough for capital raisings, but the project was robust and would transform Zimplats to one of the lowest cost producers in the platinum industry. The completed expansion would enable it to operate profitably even at current metal prices and it was critical that the project be completed. The Ngezi operation is located on the Hartley Geological Complex on the Zimbabwean Great Dyke southwest of Harare. The \$340 million expansion project is at an advanced stage with construction of two concentrators set for completion in the first quarter of 2009 and also includes the development of two new underground mines.

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Zimbabwe's Bindura Nickel Suspends Mining

¶21. (SBU) Bindura Nickel Corporation (BNC) has placed its Trojan and Shangani mines in Zimbabwe on care and maintenance with immediate effect. The smelter and refinery operations will also be placed on care and maintenance once stocks have been depleted. BNC said it would maintain critical infrastructure and skills so as to allow production to re-start under more favorable conditions. The company is also investigating the potential for the resumption of smelting and refining using third-party feedstock under existing and additional toll contracts.

Petra Diamonds Cuts Exploration

¶22. (SBU) Petra Diamonds, which is 44% owned by the Saudi Arabia-based Saad Investment Company, said it would cut its exploration budget by at least 80%, citing the global economic downturn as the main reason for the decision. Petra Diamonds, which bought the famous Cullinan Mine from De Beers, announced that its exploration spend on early stage prospecting in Angola and Botswana and advanced exploration in Sierra Leone would be reduced to \$5 million per year from a budgeted \$25 million per year. Petra's CEO Johann Dippenaar announced that the group had successfully transformed to a strong diamond producer with substantial production and revenue contributions from the Cullinan and Koffiefontein mines and the Kimberley tailings dumps, properties it purchased from De Beers. Its smaller Star and Helam fissure mines would be put on care and maintenance.

International Ferro Metals Halts Production

¶23. (SBU) London-listed International Ferro Metals (IFL) has temporarily halted ferrochromium production at its South African operations in response to falling demand. Ferro-chromium sales will continue to be supplied from the company's inventory, which stood at 38,000 tons at the end of October, but sales to China are to be suspended until prices and conditions improve. IFL's two furnaces have a capacity of 267,000 tons of ferro-chromium per annum.

¶24. (SBU) Harmony Gold raised \$100 million by selling 10.5 million shares on the open market and reaffirmed its capital expenditure plans. Harmony plans to use the cash to reduce its debt levels to zero by June 2009. The company also reported that it had repaid a substantial tranche of a loan from Nedbank. The third-ranked South African gold company confirmed that it would continue to develop its pipeline of projects as planned, despite turbulent economic conditions and outlook. The company has eleven underground mines and one opencast operation in South Africa and is currently building Qand one opencast operation in South Africa and is currently building and expanding mines in South Africa and Papua New Guinea.

Anglo Coal and Iron Ore Projects Still Flying

¶25. (SBU) Anglo American's plans to cut capital expenditure by more than 50% across the Group for 2009 has largely left its coal and iron ore (through its 64% holding in Kumba Iron Ore) projects untouched. The cuts would mainly impact expansion plans for its PGM and base metals projects. The company said it will ensure that state power utility Eskom's steam coal requirements were fulfilled, but that it had curtailed plans to grow its coking and metallurgical

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coal production due to the expected cut in steel and ferro-alloy output in 2009. About \$400m in capital expenditure has been allocated to steam coal projects in 2009.

¶26. (SBU) Anglo American Chief Executive Cynthia Carroll said the company was planning a fourfold increase in iron ore production by ¶2016. Speaking at the launch of Kumba's Sishen Expansion Project (SEP) in November, which features the largest jig beneficiation plant in the world, she said that Anglo would be producing around 150 million tons of ore a year by 2016 and would have a 13% share of the seaborne trade. Referring to the current global economic turbulence, Carroll emphasized that Anglo was well-placed to weather the storm and had both a healthy balance sheet and some of the most highly rated mining assets in the world, the majority being large-scale, long-life, low-cost operations. Kumba spokesperson Tebello Chabana confirmed that Sishen mine would continue its ramp-up of the new jig plant and that the Sishen South mine expansion project was still on track to start production in the first half of 2012. He said Kumba's total iron ore production was tied up in long-term contracts, but there was now a greater emphasis on quality/niche products rather than volume of output as was the case earlier in the year when demand was greater.

LA LIME